EAGLE GOLD MINES LIMITED

ANNUAL REPORT

1969

EAGLE GOLD MINES LIMITED

STATEMENT OF DEFERRED GENERAL AND ADMINISTRATIVE EXPENSES
(UNAUDITED)

	Six Months Ended June 30	
	1970	1969
Shareholders' information and meetings	$ 2,095	$ 26,867
Legal and audit	5,189	1,414
Executive officers' salaries	6,623	6,623
Miscellaneous office expenses	1,981	3,445
Transfer agent's fees and expenses	2,061	4,090
Interest and bank charges	10,179	
Head office services	3,192	3,000
Advertising	132	2,709
Share certificate expense	26	573
Directors' fees	400	450
Listing and filing fees	100	100
	$ 31,978	$ 49,271
Less: Interest earned		6,033
	$ 31,978	$ 43,238
Balance Deferred — beginning of period	340,821	219,735
TOTAL DEFERRED GENERAL AND ADMINISTRATIVE EXPENSES	$ 372,799	$ 262,973

Note: Certain prior period's figures have been reclassified to conform with the presentation adopted for 1970.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(UNAUDITED)

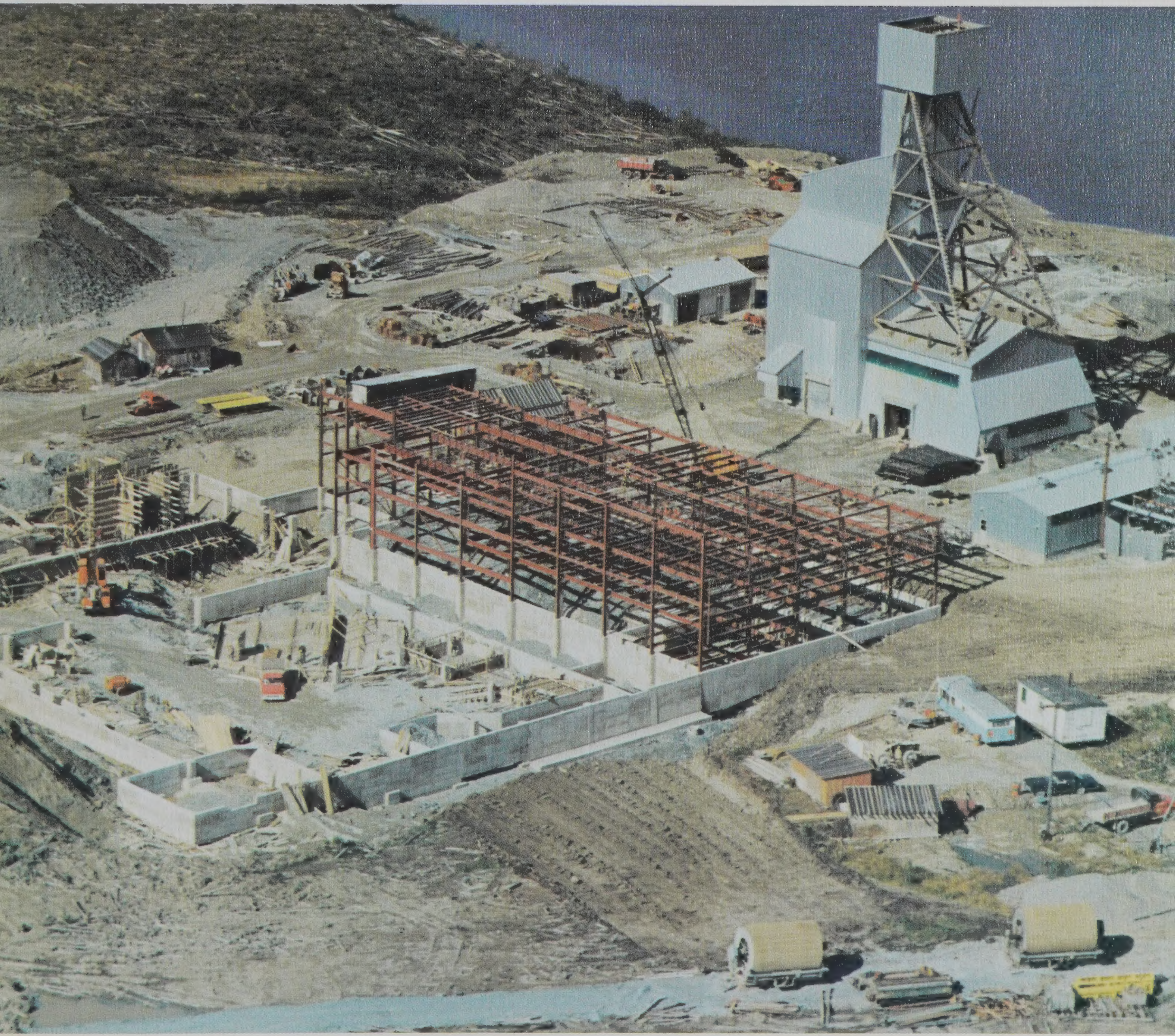
	Six Months Ended June 30	
SOURCE OF FUNDS	1970	1969
Refund of deposit — Quebec hydro	$ 1,512	$ 8,328
Debenture payable	800,000	
Note payable	40,000	
Deposits received on share subscriptions	167,838	
Credit arising from settlement made with suppliers less cancellation charges and other costs in connection therewith	333,780	
	$ 1,343,130	$ 8,328
APPLICATION OF FUNDS		
Development expenses	$ 136,278	$ 741,077
General and administrative expenses	31,978	43,238
Buildings, machinery and equipment (net)	(17,034)	420,095
Cost of settlement of shareholders' litigation	16,090	
	$ 167,312	$ 1,204,410
Increase (Decrease) in Working Capital	$ 1,175,818	$ (1,196,082)
WORKING CAPITAL (DEFICIENCY) — beginning of period	(1,201,232)	417,477
WORKING CAPITAL (DEFICIENCY) — end of period	$ (25,414)	$ (778,605)

STATEMENT OF DEFERRED DEVELOPMENT EXPENSES
(UNAUDITED)

	Six Months Ended June 30 1970	1969
Joutel Township — Group II		
Underground exploration	$ 156	$ 536,583
Wages and salaries	67,792	88,071
Maintenance	8,503	10,723
Heating and hydro	29,117	36,710
Mine supplies and expenses	10,573	32,968
Licenses, taxes and insurance	4,900	2,935
Metallurgical expenses	346	11,904
Equipment rental	1,158	3,585
Travelling expenses	3,716	1,485
Consulting and engineering fees and expenses	7,132	13,890
Telephone	2,805	2,223
	$ 136,198	$ 741,077
McCaul Township		
Licenses and fees	80	
	$ 136,278	$ 741,077
Balance Deferred — beginning of period	4,307,030	2,753,657
TOTAL DEFERRED DEVELOPMENT EXPENSES	$4,443,308	$3,494,734

Note: Certain prior period's figures have been reclassified to conform with the presentation adopted for 1970.

ANNUAL REPORT
TO SHAREHOLDERS
1969



Scene of surface construction at property of Eagle Gold Mines Limited. This picture taken mid-September 1969, shows structural steel work for office-shops-warehouse complex which is now closed in and completed. Foundations for mill building in left foreground. Steel erection on mill building is now about 40% completed.

EAGLE GOLD MINES LIMITED

Officers	Paul Penna, *President and Managing Director* Jean Geller, *Secretary-Treasurer*
Directors	Archie Basen, *Executive, American Louver of Canada Limited* Jean Geller, *Executive, Jakmin Investments Limited* Milton Klyman, *Treasurer, H. Green & Associates Limited* Julius Osheroff, *Executive, Jakmin Investments Limited* Rupert F. Righton, *Barrister, Shibley, Righton & McCutcheon*
Mine Manager	Harry V. Pyke, B.Sc., P.Eng.
Consulting Geologist	W. A. Hubacheck, B.Sc., P.Eng.
Auditors	Starkman, Kraft, Rothman, Berger & Grill, Chartered Accountants, Toronto, Ontario
Legal Counsel	Shibley, Righton & McCutcheon Barristers and Solicitors P.O. Box 32 - 401 Bay Street, Toronto 103, Canada
Bankers	Canadian Imperial Bank of Commerce, City Hall Branch, Toronto, Ontario Royal Bank of Canada, Head Office, Toronto, Ontario
Registrar and Transfer Agent	Guaranty Trust Company of Canada, Toronto and Montreal, Canada
Shares Listed	Canadian Stock Exchange, Montreal, Quebec
Executive and Head Office	Suite 1101, 365 Bay Street, Toronto, Ontario
Mine Office	P.O. Box 310, Joutel, Quebec
Annual Meeting	September 24, 1970, at 10:00 a.m. (Toronto Time) Manitoba Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario

DIRECTORS' REPORT

The Board of Directors present the Annual Report of the Company including the audited financial statements for the year ended December 31, 1969 and for the ensuing six months ended June 30, 1970.

The following is a summary of the underground development work and surface construction carried out on the Company's gold property in Joutel Township, Quebec, during the year and to January 15, 1970, at which time this phase of the program was discontinued. A review of subsequent corporate events is also included.

Shareholders were previously advised in a special report dated January 26, 1970, of the circumstances underlying the decision of the Company to conserve the ore body and to defer bringing the mine into production and also the necessity of arranging additional financing to secure the property and existing plant and facilities to enable placing the mine on a care and maintenance basis.

In accordance with the policy of the Board of Directors to clearly define the Company's objectives, it is considered appropriate at this time to restate the economic and other considerations related to this decision to defer bringing the mine into production on the date previously planned.

Latterly in 1969, the phase of the Company's underground development program to bring the property into production on the scheduled date of May 30, 1970, had been substantially completed with such major exceptions as the installation of the underground crusher and additional underground facilities and equipment. It was at this juncture that consideration had to be given to the arranging of financing for the completion of the underground work and equipment installation as well as the construction of the milling plant and ancillaries.

During and attendant to the negotiations for interim financing for this final phase of the program, a consultant was commissioned by the Company to reassess the additional capital required and also appraise the profitability of the operation in light of the then prevailing price of gold with a view to the feasibility of future financing.

The feasibility study subsequently submitted by the consultant estimated that the amount required to complete the final phase to bring the mine into production would be approximately $5,547,000 or about $2,200,000 in excess of the amount previously estimated.

The escalation of this capital requirement was partially attributable to the increase in the mill treatment rate from 800 to 1,000 tons per day, more extensive underground and pre-production development work to establish reserves to support the expanded mill capacity, and also the general increase in the costs of materials, equipment and labour. In addition, provision was made for operating capital in the amount of nearly $700,000 to cover expenses during the approximate period of three months between the start-up of production and marketing of bullion.

While this study indicated that an economically viable mining operation was possible on the basis of a gold price of $35.00 (U.S.) per ounce by utilizing selective mining of above mine average ore to yield acceptable profit margins, such an operation could not be sustained at these profit margins beyond a period of approximately two years unless there was an appreciable increase in the price of gold. Moreover, the profit generated during this period would be less than the additional capital required.

A further and perhaps an over-riding consideration (quite apart from the financing problems) was to weigh the advisability of mining the deposit with consequent lower profit margins arising from the precipitous decline in the free market price for gold from $44.00 per ounce in May of 1969 to the $35.00 range the following November, or, alternatively, defer the commencement of production until such time as the economics improved — essentially an increase in the gold price to at least a level above $40.00, the approximate average free market price during most of 1968 and 1969.

The drop in the gold price had a two-fold effect for your Company; a squeeze on profit margins, and a decline in the market price of its shares which inhibited any plans for equity financing.

The impact of this decline in the free market price for gold was reflected in the stock market. The shares of fourteen representative Canadian gold producing companies recorded an approximate average 46% decline in market value from the highs reached earlier in 1969. Many of these mining companies, which ordinarily sold their bullion to the Canadian mint to qualify for 'cost-aid' under the EGMA formula, elected to forego the assistance and sell their output on the free gold market where the benefit of the higher prices exceeded the value of the cost-aid. When the gold price dropped, these companies reverted to the former method of selling to the Canadian mint under the EGMA plan.

It is interesting to note that apparently only one Canadian gold mine has operating costs low enough to operate profitably without receiving cost-aid from the Canadian government. (The location of your Company's gold property in what is essentially a new base metal producing area, precluded its eligibility for EGMA assistance.)

It is an inherent factor in the mining industry that ore once mined is not necessarily replaced and the profit (or loss) realized is final. Mines cannot be efficiently and profitably operated on an intermittent basis, and when a decision has been made to commence production it is difficult and costly to alter this course of action. This, of course, was another factor to be considered by your Company.

After careful deliberation, the Board of Directors of your Company concluded that owing to the substantial additional cost to complete the construction of the required mining facilities, the probable return on the basis of existing gold prices and other related economic factors, the proposed production program predicated upon the defined tonnages and grades, would be uneconomic under prevailing circumstances.

It is the considered opinion of your Board of Directors that it is in the best interests of the Company and its shareholders to conserve the ore body at its Joutel area property and defer bringing the mine into production until such time as conditions are favorable.

Financial

At the time the decision was made to postpone production plans and discontinue the mine development and construction program, amounts due to suppliers and contractors were considerably in excess of working capital. Under these circumstances, it was imperative that an effort be made to negotiate a settlement of the amounts due to the suppliers and contractors and concurrently endeavour to arrange the financing necessary to implement the funding of these claims and thereby secure the existing plant and facilities.

Publication of this Report to Shareholders was deferred pending the outcome of these

negotiations for the settlement of the amounts due, and then obtaining the required financing.

As shown in the accompanying financial statements, your Company has settled its obligations to these suppliers and contractors. This was made possible through the borrowing of monies from Agnico Mines Limited and through the private placement of treasury shares. The financing arranged consisted of long term debt totalling $840,000 and the private placement of 255,000 shares of the capital stock for a combined total of $1,095,000.

The long term debt comprises an 8½% note payable, due July 30, 1972, in the amount of $40,000, and $800,000 principal amount of debentures due June 1, 1975. The debentures are accompanied by warrants to purchase 800,000 treasury shares at a price of $1.00 per share until June 1, 1973, and at $1.50 per share thereafter until June 1, 1975. Agnico Mines Limited has undertaken not to exercise any warrants for a period of six months following June 1, 1970.

As a result of these financial arrangements, the working capital deficiency of $1,201,232 at the end of 1969 was reduced to $25,414 at June 30, 1970. The financial statements also show that expenditures to June 30, 1970, on the mine for underground development, buildings, machinery, equipment, etc., approximate $8.5 million. Subject to the aforementioned debentures, these assets are wholly owned by the Company.

Present Status of the Property

The property located in the Joutel Area of the Province of Quebec comprises approximately 925 acres of which 486.7 acres are held under mining lease the remainder under development licences.

The property is developed by a three-compartment production size shaft sunk to a depth of 1860 feet, complete with hoisting equipment, pumps, air compressor, as well as surface buildings, including the shaft headframe, main service building which are fully equipped and completed. The office-shops-warehouse complex is 85% completed; the engineering-geology office is functional with some finishing yet to be done.

The excavation and concrete foundations for the mill building were completed with the exception of about 20 yards of concrete to be poured, and mill steel erection is about 40% completed and approximately 60% of the structural steel is on the property. The following equipment has been installed in the mill building complex:

Two — 1,000 ton ore bins
Six — Agitators
Two — 55-Foot Thickeners
Three — Pachuca Tanks
One — Lime Storage Tank
One — Cyanide Storage Tank

The tailings dam is ready for operation complete with the overflow weir and effluent pipe. The 5-inch diameter wood stave pipe is on hand but not installed for the discharge of tailings from the mill to the dam.

The surface raise collar was concreted, the bedplate for the main ventilation fan has been installed and the concrete block building to house the fan is 75% completed.

Your Company also owns 14 staff houses, two blocks of row housing each of six units, and trailer accommodation for 125 persons in the nearby Joutel Townsite.

Underground Development

Eleven level stations have been cut at 150-ft. intervals from the 300 foot horizon to the 1850 foot horizon. The ore pass system has been completed from the loading pocket at the 1710 foot horizon to the 300 foot level, and a combination escape and ventilation raise was completed from the 300 foot level to surface.

The vertical conical sump and pump arrangement on the 750 foot level was completed and operational at the end of the year. The vertical conical sump on the 1500 foot level has been developed. Slashing, concreting and pump and pipe installations remain to be done in order to put this sump into operation.

Approximately 50% of the excavation necessary for the installation of an underground crusher (located below the 1650 foot level) has been completed.

Stope development is well advanced. Three stope development raises were driven in ore from the 1500 to the 1350 foot level; two raises were driven from the 1350 to the 1200 foot level (one stope development raise in ore, the second a ventilation raise); one raise was driven for ventilation from the 1200 to the 1050 foot level

and a second development raise in ore was under way when work was discontinued. Another stope development raise was similarly under way between the 900 and 750 foot levels.

Several footwall or mucking drifts complete with drawpoint crosscuts had been completed and several others were under development; one blast hole stope beginning in the 'West' ore zone from the 1500 foot level was under development; and the central raise was driven and two subdrifts at 50-foot intervals were driven east and west of the raise to the limits of the blast hole stope when underground development was discontinued.

In addition, 25-foot interval definition drilling was completed on the lower subdrift.

Lateral Development

The mineralized zone containing the ore lenses has been established over a length of 2,000 feet and from 300 feet below surface to the 1800 foot level — the deepest horizon tested to date by diamond drilling.

A post ore gabbro dyke, about 200 feet wide, cuts the ore zone about 600 feet east of the shaft. The underground workings are shown in section on the appended vertical longitudinal projection.

During 1969, drifting and crosscutting was carried out on all levels from the 300 to the 1500 foot levels. West of the shaft, the footwall development has been extended to the presently defined limit of the known ore on the 750, 900, 1050, 1200, 1350 and 1500 foot levels.

East of the shaft, drifts have been driven on the 750, 900, 1050, 1200, 1350 and 1500 foot levels. The drifts on the 900, 1050, 1200, 1350 and 1500 foot levels have penetrated the post ore gabbro dyke and beyond to prove up an ore zone in this east sector. The existence of this zone east of the gabbro dyke had not been indicated in the earlier surface diamond drilling.

The initial development of the east end of the 900 foot level beyond the gabbro dyke was in progress when work was discontinued. This section was not included in the calculation of ore reserves. The drift on the 900 foot level was advanced in ore for 32 feet and chip samples of this section averaged 0.38 ounce of gold per ton over an average width of 8.0 feet.

Underground diamond drill hole 6-72, the latest drilled from the east drift on the 900 foot level, intersected 4.0 feet which assayed 0.38 ounce of gold per ton. This intersection was approximately 80 feet ahead of the drift face.

During 1969, some 28,000 feet of diamond drilling was completed on all levels between the 750 and 1500 foot levels. In addition, seven down holes were drilled from the 1500 foot level all of which intersected ore grade mineralization to a depth of 1800 feet. One flat hole was drilled from the 1800 level station and this hole intersected ore grade mineralization.

There is no known geological reason why the tonnage potential indicated in the work completed to date should not continue to much greater depth. The property is situated in the same geological environment as that of Rio Algom's Mines de Poirier, located about two and a half miles south of the Eagle Gold Mine, where development to date has been carried to a depth of 2,850 feet.

In the ultimate planning of the mine development, shaft deepening would be undertaken. There was, of course, no urgency for shaft deepening owing to the existing ore reserves. In the initial planning of the underground program, specifications for hoisting and other ancillary equipment made adequate provision for expansion. The hoist is capable of handling up to 1,500 tons per day to a maximum depth of 3,000 feet.

The phase of the Company's ultimate proposed underground development program to bring the property into production on the previously scheduled date of May 30, 1970, was well advanced when work was discontinued. Nearly 80% of the lateral development of crosscutting and drifting was completed and over 50% of the stope preparation was achieved.

The following is a summary of the underground development completed to January 8, 1970, and the estimated additional work required to complete the underground program prior to production:

	Completed to Jan. 8, 1970	Additional Planned	Total
Drifting and Crosscutting	18,292 ft.	5,078 ft.	23,370 ft.
Raising	3,797 ft.	3,421 ft.	7,218 ft.
U-Drilling	34,769 ft.	—	—
Ore Stockpile	37,272 tons	22,728 tons	60,000 tons

Ore Reserves

The appended longitudinal projection graphically illustrates the various ore categories

which comprise the presently known or indicated ore reserves in the developed area of the mine, as estimated by the mine staff. These reserves are divided into three main categories; proven, probable and possible.

Proven ore is considered to be a block of ore 25 feet above and below drifts in ore using a combination of muck sampling and diamond drilling to establish average width and grade.

Probable ore is established as a block 50 feet above and below proven ore using the proven width and grade adjusted for the influence of diamond drill intersections where applicable within the ore block.

Possible ore is that indicated by diamond drilling and projections on reasonable geological evidence. In the developed area of the mine, the influence is extended 50 feet on either side horizontally and 25 feet above and below the drill intersections.

Of the total 2,397,748 tons comprising the possible or drill-indicated reserves, 868,022 tons are attributed to the area above the 750 foot level and estimated from the original surface diamond drilling. The remainder includes 977,835 tons between the 750 and 1500 foot levels, and 551,891 tons below the 1500 foot level.

All categories in the estimated reserves include a 15% allowance for dilution. As underground development is advanced, tonnages in the possible or drill-indicated category would be progressively transferred to the proven and probable reserves.

Ore reserves, as presently estimated, are:

Category	Tons + 15% Dilution	Diluted Grade
Proven and Probable	753,909	0.307 oz/ton
Drill-Indicated	2,397,748	0.285 oz/ton

On the supposition that the foregoing tonnages and grades would be economic, this would provide feed for a 1,000 ton per day mill for a period of approximately 10 years.

As previously stated, there is no known geological reason why this structure (as presently defined) will not persist to much greater depth. In addition, there is some 4,000 feet of total strike length west from the present underground workings to the property boundary which presents similar geological considerations.

Metallurgical Research

The design of the mill envisaged is a 1,000 ton cyanide circuit employing a rod mill followed by a pebble mill to produce the fine grind of 90% minus 325 necessary to obtain recoveries of from 90% on 0.42 oz. heads to 86% on 0.32 heads.

Additional detailed metallurgical tests were carried out utilizing bulk ore samples obtained from the underground development work.

General

The Board of Directors wishes to reaffirm its continuing confidence and optimism over the ultimate prospects of your Company's mine and also the outlook for an eventual increase in world gold prices.

Well authenticated studies show that the present annual consumption of gold in industry and the arts is in excess of free world production. And this consumption rate is rising rapidly. Therefore, quite distinct from its well established role in the world monetary system, gold promises to become a scarce commodity and such increasing demand should inevitably ensure higher prices.

In addition to the pressures arising from consumption of gold in industry and the arts, private hoarding of gold by those who recognize and respect its enduring qualities as the ultimate measure by which all things including currencies, are finally valued, is a logical factor in the expectation that the law of supply versus demand will tilt in favor of a higher gold price.

The efforts of the management of your Company, in arranging finances to secure the plant and existing facilities at its Joutel Area gold property, representing an expenditure of some $8.5 million plus the unexploited potential of the appreciable tonnages of ore, have protected this asset which is now owned free of any encumberance with the exception of the $800,000 debenture, by the Company and its shareholders.

The continued loyal support of the shareholders is gratefully acknowledged.

On behalf of the Board of Directors,

"PAUL PENNA",
President and Managing Director.

August 26, 1970.

BALANCE SHEETS

ASSETS

	June 30, 1970
Current Assets	
Cash and bank term deposits	$ 178,130
Accounts receivable	11,883
Sales tax refund receivable	—
Supplies, at average cost	43,480
	$ 233,493
Fixed Assets, at cost (Note 2)	
Road	$ 188,090
Buildings, machinery and equipment	3,843,692
	$4,031,782
Mining claims and properties	25,393
	$4,057,175
Deferred Expenses (Note 3)	
Development expenses (per attached statements)	$4,443,308
General and administrative expenses (per attached statements)	372,799
	$4,816,107
Other Assets	
Investment in shares of mining company, at nominal value	$ 1
Organization expenses, at cost	8,020
Deposit with Quebec Hydro	4,372
	$ 12,393
	$9,119,168

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities	
Bank indebtedness	$ 50,000
Demand loans payable	111,000
Accounts payable and accrued charges	97,907
Contractors' holdbacks payable	—
	$ 258,907
Long-Term Debt (Note 4)	840,000
	$1,098,907
Shareholders' Equity	
Capital Stock (Note 5)	
Authorized	
7,000,000 shares of $1 each	
Issued and Fully Paid	
6,100,000 shares (1968 — 5,500,000 shares)	$6,100,000
Add: Premium (Discount) (net)	2,223,968
Deposits Received on Share Subscriptions (Note 5)	167,838
Deficit (per attached statements)	(471,545)
	$8,020,261
	$9,119,168

EAGLE GOLD MINES LIMITED

(Incorporated Under the Laws of the Province of Ontario)

December 31, 1969	December 31, 1968
$ 107,033	$ 548,330
23,524	3,945
13,330	—
37,191	2,111
$ 181,078	$ 554,386
$ 188,090	$ 188,090
3,878,115	926,447
$4,066,205	$1,114,537
25,393	25,393
$4,091,598	$1,139,930
$4,307,030	$2,753,657
340,821	219,735
$4,647,851	$2,973,392
$ 1	$ 1
8,020	7,110
5,884	14,212
$ 13,905	$ 21,323
$8,934,432	$4,689,031
$ 100,000	—
—	—
1,239,227	$ 121,909
43,083	15,000
$1,382,310	$ 136,909
—	—
$1,382,310	$ 136,909
$6,100,000	$5,500,000
2,223,968	(176,032)
—	—
(771,846)	(771,846)
$7,552,122	$4,552,122
$8,934,432	$4,689,031

AUDITORS' REPORT

To the Shareholders

We have examined the balance sheets of Eagle Gold Mines Limited as at June 30, 1970 and December 31, 1969 and the statements of deficit, deferred development expenses, deferred general and administrative expenses, and source and application of funds for the six months ended June 30, 1970 and the year ended December 31, 1969. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As outlined in Note 1, the development of the orebodies has been deferred and the project placed on a care and maintenance basis until economic and other conditions are more favourable for the arrangement of the additional necessary financing to complete the construction and development programme for the production of gold ores. Recovery of fixed asset costs ($4,057,175) and deferred expenses ($4,816,107) is dependent upon the foregoing.

In view of the significance of the matters discussed in the preceding paragraph, we are unable to express an opinion on the accompanying financial statements taken as a whole. However, in our opinion, the accompanying balance sheets present fairly the current assets, other assets, current liabilities and long-term debt of the company as at June 30, 1970 and December 31, 1969 and the statements of deferred development expenses, deferred general and administrative expenses and source and application of funds present fairly the results of its operations and the source and application of its funds for the periods then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Chartered Accountants

Toronto, Ontario
July 31, 1970

The accompanying notes form an integral part of these financial statements.

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

PAUL PENNA, Director

JEAN GELLER, Director

To be read in conjunction with the Auditors' Report to the Shareholders attached hereto dated July 31, 1970.

STATEMENTS OF DEFICIT

	Six Months Ended June 30, 1970	Year Ended December 31, 1969	Year Ended December 31, 1968
Balance — beginning of period	$ 771,846	$ 771,846	$ 771,846
Add: Loss on disposal of fixed assets	17,389		
Cost of settlement of shareholders' litigation	16,090		
	$ 805,325		
Less: Credit arising from settlement made with suppliers ($652,241) less cancellation charges ($233,197) and other costs ($85,264) in connection therewith (Note 1)	333,780		
BALANCE — end of period	$ 471,545	$ 771,846	$ 771,846

STATEMENTS OF DEFERRED DEVELOPMENT EXPENSES

	Six Months Ended June 30, 1970	Year Ended December 31, 1969	Year Ended December 31, 1968
Joutel Township — Group II			
Underground exploration	$ 156	$ 961,999	$ 387,098
Wages and salaries	67,792	233,136	122,363
Maintenance	8,503	108,657	89,934
Heating and hydro	29,117	84,342	61,558
Mine supplies and expenses	10,573	84,057	50,638
Licenses, taxes and insurance	4,900	23,758	20,681
Metallurgical expenses	346	26,468	3,882
Equipment rental	1,158	11,891	2,849
Travelling expenses	3,716	9,010	3,374
Consulting and engineering fees and expenses	7,132	2,576	19,506
Telephone	2,805	6,252	3,464
Survey		1,147	5,702
Shaft sinking			374,225
Clearing site, excavations			1,913
	$ 136,198	$1,553,293	$1,147,187
McCaul Township			
Licenses and fees	80	80	16
	$ 136,278	$1,553,373	$1,147,203
Balance Deferred — beginning of period	4,307,030	2,753,657	1,606,454
TOTAL DEFERRED DEVELOPMENT EXPENSES	$4,443,308	$4,307,030	$2,753,657

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF DEFERRED GENERAL AND ADMINISTRATIVE EXPENSES

	Six Months Ended June 30, 1970	Year Ended December 31, 1969	Year Ended December 31, 1968
Shareholders' information and meetings	$ 2,095	$ 72,648	$ 37,836
Legal and audit	5,189	23,283	24,608
Executive officers' salaries	6,623	13,246	11,248
Miscellaneous office expenses	1,981	17,442	3,625
Transfer agent's fees and expenses	2,061	12,629	17,041
Interest and bank charges	10,179	376	104
Head office services	3,192	6,000	6,000
Advertising	132	4,627	1,713
Share certificate expense	26	1,635	4,698
Directors' fees	400	900	350
Listing and filing fees	100	100	274
	$ 31,978	$ 152,886	$ 107,497
Less: Interest earned		31,800	70,115
	$ 31,978	$ 121,086	$ 37,382
Balance Deferred — beginning of period	340,821	219,735	182,353
TOTAL DEFERRED GENERAL AND ADMINISTRATIVE EXPENSES	$ 372,799	$ 340,821	$ 219,735

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

	Six Months Ended June 30, 1970	Year Ended December 31, 1969	Year Ended December 31, 1968
SOURCE OF FUNDS			
Sale of capital stock		$ 3,000,000	$ 1,275,945
Refund of deposit — Quebec Hydro	$ 1,512	8,328	4,088
Debenture payable	800,000		
Note payable	40,000		
Deposits received on share subscriptions	167,838		
Credit arising from settlement made with suppliers less cancellation charges and other costs in connection therewith	333,780		
	$ 1,343,130	$ 3,008,328	$ 1,280,033
APPLICATION OF FUNDS			
Development expenses	$ 136,278	$ 1,553,373	$ 1,147,203
General and administrative expenses	31,978	121,086	37,382
Buildings, machinery and equipment (net)	(17,034)	2,951,668	174,602
Organization expenses		910	
Cost of settlement of shareholders' litigation	16,090		
	$ 167,312	$ 4,627,037	$ 1,359,187
Increase (Decrease) in Working Capital	$ 1,175,818	$ (1,618,709)	$ (79,154)
WORKING CAPITAL (DEFICIENCY) — beginning of period	(1,201,232)	417,477	496,631
WORKING CAPITAL (DEFICIENCY) — end of period	$ (25,414)	$ (1,201,232)	$ 417,477

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 1970 and December 31, 1969

1. **Development Programme**

   In January, 1970 the company decided to defer bringing its gold mining property known as Joutel Township — Group II into production in view of increased cost estimates and the currently existing market price for gold. The company has discontinued construction of its required mining facilities and placed its property on a care and maintenance basis until such time as the economic and other conditions are more favourable for the arrangement of the additional necessary financing to complete the construction and development programme. To June 30, 1970 the company had expended $4,047,782 in fixed assets and $4,814,951 in deferred expenses in connection with this programme. In June, 1970 the company borrowed monies as outlined in Note 4 and effected a settlement with its suppliers. The financial statements include the figures for the six months ended June 30, 1970 in order to reflect these events.

2. **Fixed Assets**

   The company follows the policy of not recording depreciation on buildings, machinery and equipment until such time as the mine may become productive. Mining claims and properties were acquired as follows:

For cash	$ 14,500
For 43,250 shares	10,893
	$ 25,393

3. **Deferred Expenses**

   The amounts shown for deferred expenses represent costs to date less amounts written off and are not intended to reflect present or future values.

4. **Long-Term Debt**

   Long-term debt is comprised as follows:

8½% note payable due July 30, 1972	$ 40,000
Debenture due June 1, 1975	800,000
	$ 840,000

The debenture bears interest at the rate of 1½% above a Canadian Chartered Bank prime interest rate in effect from time to time and is secured by a first charge on all real and immovable property of the company. Subject to the approval of shareholders, the company

proposes to apply for supplementary letters patent to permit the registration of a fixed charge on certain moveable property and a floating charge on all other moveable property of the company as additional security for the debenture. The debenture was accompanied by warrants to purchase 800,000 shares of capital stock of the company exercisable at $1.00 per share to June 1, 1973 and at $1.50 per share from June 2, 1973 to June 1, 1975.

Warrants to purchase 155,000 of these shares are subject to the company obtaining supplementary letters patent as outlined in Note 5. The debenture is payable to Agnico Mines Limited, a company having some directors in common with those of Eagle Gold Mines Limited.

5. **Capital Stock**

During 1969 the company obtained supplementary letters patent increasing its authorized capital stock from 6,000,000 to 7,000,000 shares and sold 600,000 shares at $5.00 per share ($3,000,000) resulting in a premium of $4.00 per share ($2,400,000). Subject to the approval of shareholders, the company proposes to apply for additional supplementary letters patent to increase the authorized capital stock to 8,000,000 shares.

On April 29, 1970 the directors of the company authorized the sale by private placement of 255,000 shares of capital stock at $1.00 per share ($255,000) on which deposits of $167,838 had been received to June 30, 1970.

Reference is made to Note 4 concerning outstanding warrants to purchase 800,000 shares of capital stock.

6. **Comparative Figures**

Certain 1968 figures have been reclassified to conform with the presentation adopted for 1969 and 1970.

7. **Other Statutory Information**

Aggregate direct remuneration of directors and senior officers (as defined by The Corporations Act) amounted to $21,486 for the six months ended June 30, 1970 and $58,872 for the year ended December 31, 1969.

Above: Looking northeast across construction site at property of Eagle Gold Mines Limited with Harricana River in background. This picture, taken in late November of 1969, shows equipment being installed in mill building foundations. From left to right in foreground — two 1,000 ton ore bins, concrete foundations for crushing-grinding bay, two 55-ft. thickeners, agitators, pachuca tanks, lime and cyanide storage tanks and refinery section. Note commencement of steel erection of mill building adjacent to completed office-shops-warehouse complex. Below: Steel erection of office-shops-warehouse complex in progress during mid-September of 1969.

EAGLE GOLD MINES LIMITED

See overleaf for longitudinal projection of underground workings and graphic illustration of ore reserves.

Below: Core diamond drilling on the 1200 foot ore drift, drill-testing new gold zone encountered east of the gabbro dike.

TOP: Aerial view of Joutel townsite. Staff housing row is at top left, two apartment buildings centre right, and trailer campsite for accommodating 125 single status and hourly-rated employees is at bottom centre. BOTTOM: View of staff housing in Joutel townsite.

Cage and skip combination at top of shaft.

Printed in Canada.

EAGLE GOLD MINES LIMITED

SEMI-ANNUAL REPORT

1969

EAGLE GOLD MINES LIMITED

SEMI-ANNUAL REPORT TO SHAREHOLDERS FOR SIX MONTHS PERIOD ENDED JUNE 30, 1969

Sketch of planned mill and related buildings integrated with existing shaft headframe an[d] service buildings.

EAGLE GOLD MINES LIMITED

Officers

Paul Penna, President and Managing Director

Jean Geller, Secretary-Treasurer

Board of Directors

Archie Basen
Executive, American Louver of Canada Limited

Jean Geller
Bookkeeper, Jakmin Investments Limited

William L. Hogarth, Jr.
Executive, Associated Arcadia Nickel Corporation Limited

Paul Penna
Executive, Jakmin Investments Limited

Rupert F. Righton
Barrister, Shibley, Righton & McCutcheon

John L. Vorbach, Jr.
Executive, John L. Vorbach, Inc.

Mine Manager

H. V. Pyke, B.Sc., P.Eng.

Shareholders' Auditors

Starkman, Kraft, Rothman, Berger & Grill
Chartered Accountants, Toronto, Ontario

Bankers

Canadian Imperial Bank of Commerce,
City Hall Branch, Toronto, Ontario

Royal Bank of Canada,
Head Office Branch, Toronto, Ontario

Registrar and Transfer Agent

Guaranty Trust Company of Canada
Toronto and Montreal, Canada

Executive and Head Office

Suite 1101, 365 Bay Street,
Toronto, Ontario

Mine Office

P.O. Box 310,
Joutel, Quebec

Shares Listed

Canadian Stock Exchange,
Montreal, Quebec

Drilling in preparation for blasting of development heading on the 1200 foot level.

DIRECTORS' REPORT

The Directors present the comparative financial statement of the Company for the six months ended June 30, 1969.

The following is a summary of developments at the Company's gold property in Joutel Township, Northwestern Quebec, and a review of the planned program of underground work and surface construction in preparation for the commencement of production now scheduled for May 31, 1970.

Underground Development

The original objective of the underground program was to initially confirm tonnage and grade estimates derived from the earlier surface diamond drilling and enable the determination of the proposed milling rate, as well as to advance stope preparation to coincide with the planned commencement of production in 1970.

The scope of this program has expanded considerably beyond the original concept due in large part to the discovery of the new gold orebody now under development east of the gabbro dyke where appreciable additional tonnage is indicated. Another significant factor in the ultimate upward revision of estimated ore reserves is that underground development has extended the main orebody to the west of the previously indicated westerly ore limits.

Main Orebody

For the purpose of this review, the main orebody is in the area to the west of the gabbro dyke where earlier surface diamond drilling indicated ore reserves to a tested depth of 1500 feet, estimated at 1,600,000 tons averaging 0.41 ounce of gold per ton, or, using the alternative estimate, 2,240,000 tons averaging 0.345 ounce per ton.

In the work completed to date, ore grade material has been found on all six levels under development from the 750′ level down to and including the 1,500′ level. This is in the area where the above described surface diamond drill indicated ore reserves have been attributed. As shown on the appended longitudinal section (see centre spread pages 6 and 7), underground work has also located additional mineable widths of ore grade material extending well to the west of the ore limits defined by the earlier surface drilling.

The extensions to the west of the previous ore limits have, to date, been found on four levels, the

1050′, 1200′, 1350′ and 1500′ levels. The upper levels at the 750′ and 900′ horizons have not yet been sufficiently advanced to determine if similar extensions exist on these levels.

East Orebody

The area east of the gabbro dyke contains the new zone designated as the east orebody. This is an area never considered in any estimate of ore reserves derived from the original surface diamond drilling. Appreciable additional tonnage has been indicated by the underground work on the four levels from the 1050′ to the 1500′ horizons, probably in the order of around a half million tons of an average grade comparable to that of the main orebody.

This new orebody is still open for extension to the east, particularly on the 1500′ level, as well as to depth below the 1500′ level.

Tons and grade calculations, based on the underground diamond drilling, sampling and other work completed to date on the east side of the gabbro dyke on these four levels, yield the following indicated ore attributable to the east orebody:

Level	T.V.F. (Tons/vertical foot)	Length	Undiluted Average Width	Undiluted Average Grade
1050	680	500 ft.	13.6 ft.	0.44 ozs/ton
1200	540	350 ft.	15.4 ft.	0.28 ozs/ton
1350	685	525 ft.	13.0 ft.	0.33 ozs/ton
*1500	588	225 ft.	26.0 ft.	0.37 ozs/ton

* Drifting in ore is continuing on this level and if projected to a point vertically below the eastern areas indicated in the three levels above, there is a potential additional length of some 400 feet to 500 feet. Since the compilation of the above table, the 1500′ level has been advanced an additional 75 feet to the east.

The apparent widening of the ore zone on the 1500′ level, to the extent it has been tested to date, is considered significant in terms of the potential for the area below this horizon. The only hole drilled from underground to test below the 1500′ level was U-10-5, directed to the approximate 1620′ horizon or 120 feet below the 1500′ level on the west side of the dyke. This hole intersected 0.41 ounce of gold per ton over a core length of 30.6 feet.

No significant geological structure has been found which, in the opinion of the Company's consultants, would limit the extent of this ore at depths below the 1500′ level.

Drifting to the east is now in progress on the 900′ level to test the upward extension of the new east orebody. This drift was advanced past the east contact of the gabbro dyke, the last 128 feet was mucked and added to the ore stockpile.

Summary of Underground Work

As shown in the appended longitudinal section of the underground workings, lateral development in the period from March 31st, 1969, to the end of July, has been extensive. The drift advance for this approximate four month period is shown in black on this longitudinal section.

A considerable portion of the 4,806 feet of drift advance in this four month period has been beyond the area considered in the estimate of ore reserves based on the earlier surface diamond drilling. This is particularly applicable to the drift advance in the area east of the gabbro dyke where approximately 2,500 feet is in entirely new and previously untested ground.

The following table demonstrates the extent of underground work during the four month period from March 31, 1969, to the end of July, along with cumulative totals since this phase of the program commenced late in 1968:

	Total 1968	March 31st	July 31st	Totals to date
Drifting	4,604′	3,370′	8,176′	12,780′
Raising	1,235′	518′	1,193′	2,428′
X-Cutting	nil	320′	628′	628′
U-Drilling	6,603′	9,591′	17,620′	24,223′
Ore Stockpile	3,488 tons	6,247 tons	17,174 tons	20,662 tons

Projected Development

Start up of production is scheduled on or about May 31, 1970. During the period from the present phase to the date for commencement of production, the following underground work is projected:

1. Complete the necessary exploration drifting and raising between the 750′ and 1500′ levels.
2. Drive the main escape raise through to surface and install adequate ventilation equipment at the raise collar, with provision for heating mine air during the winter.
3. Prepare sufficient stoping areas on the 900′, 1200′ and 1500′ levels to produce the weekly mill requirements of 5,600 tons in a five day work week.
4. Excavate for and install an underground crusher below the 1500′ level. Excavation work for this facility commenced during June, 1969.
5. Expand the work force and purchase sufficient equipment to provide a minimum 800

tons per calendar day for continuous mill operation.

Pre-Production Construction

Foundations for the various buildings including the mill complex have been poured and structural steel erection is scheduled to commence during September and exterior cladding of buildings is expected to be completed before the end of the current year. Installation of all necessary mechanical and electrical equipment including the complete milling facilities, is scheduled to coincide with the planned date for the commencement of production.

Combined expenditures for the above program and the underground work will average approximately $600,000 per month from September 1969 through to May 1970. This will also include construction of housing for staff and hourly-rated employees. Construction of twelve staff houses in the Joutel Townsite has been completed and the contract for the construction of two blocks of row housing, each block consisting of six units, has been awarded. Excavation for basements was completed in July. The trailer site for the accommodation of 125 single status staff and hourly-rated employees is functioning although some landscaping and other work is required for completion.

Future Exploration Targets

While the main emphasis of current work is necessarily concentrated on preparing the mine for scheduled production, there are several potential areas for future exploration outside of the present area of mine development. To the west of Section 32+00W (the shaft section) there is approximately 4,800 feet of total strike length to the property boundary. On the 1050′ level this has been opened up for only 800 feet of this total length and no significant geological structure which would limit the possibilities of the remaining 4,000 foot length has been found.

The geological and structural considerations for the area below the 1500′ level similarly present an important potential for future development to depth. Provision was made in the sinking of the shaft for deepening by widening the manway compartment and relocation of the electric cables, water, air and ventilation pipes and other service equipment to enable sinking without interruption to mining operations. Presently installed hoisting equipment is capable of handling 1500 tons per day to a depth of 3,000 feet.

Underground development experience to date augurs well for the potential of the areas laterally beyond the present development headings and below the present bottom level at 1500 feet.

General

As mentioned previously, the present program of exploration and development at the Company's gold property directed toward the start up of production in May of 1970, was initiated on the premise of profitability on the basis of the US$35.00 gold price. Subsequent to the introduction of the 'two-tier' system in March of 1968, the open or 'free' market price has been sustained for most of the time well above the US$40-US$41 range. The announcement of the proposed activation of the Special Drawing Rights (SDR's) did not have any significant effect on the free market price for gold.

While specific details and statistics are not available, it is apparent that South Africa has marketed close to 60% of its total gold production since the time the 'two-tier' system was introduced without any noticeable effect on the free market price for gold. There is considerable opinion that prices for gold will stabilize to higher levels in an upward pattern leading to an ultimate substantial increase in the official gold price.

At the present time, the free market price for gold is approximately 20% above the price at which the economics of the Company's planned production program were established.

Financial

As a result of the recent sale of treasury shares, the Company has received an additional $3 million in working capital. The total amount of such equity financing since the present management assumed control of the Company is $6,416,945. No interest bearing bond financing is contemplated in financing the mine to production under existing high interest rates.

On behalf of the Board of Directors

"PAUL PENNA"
President and Managing Director

August 21, 1969

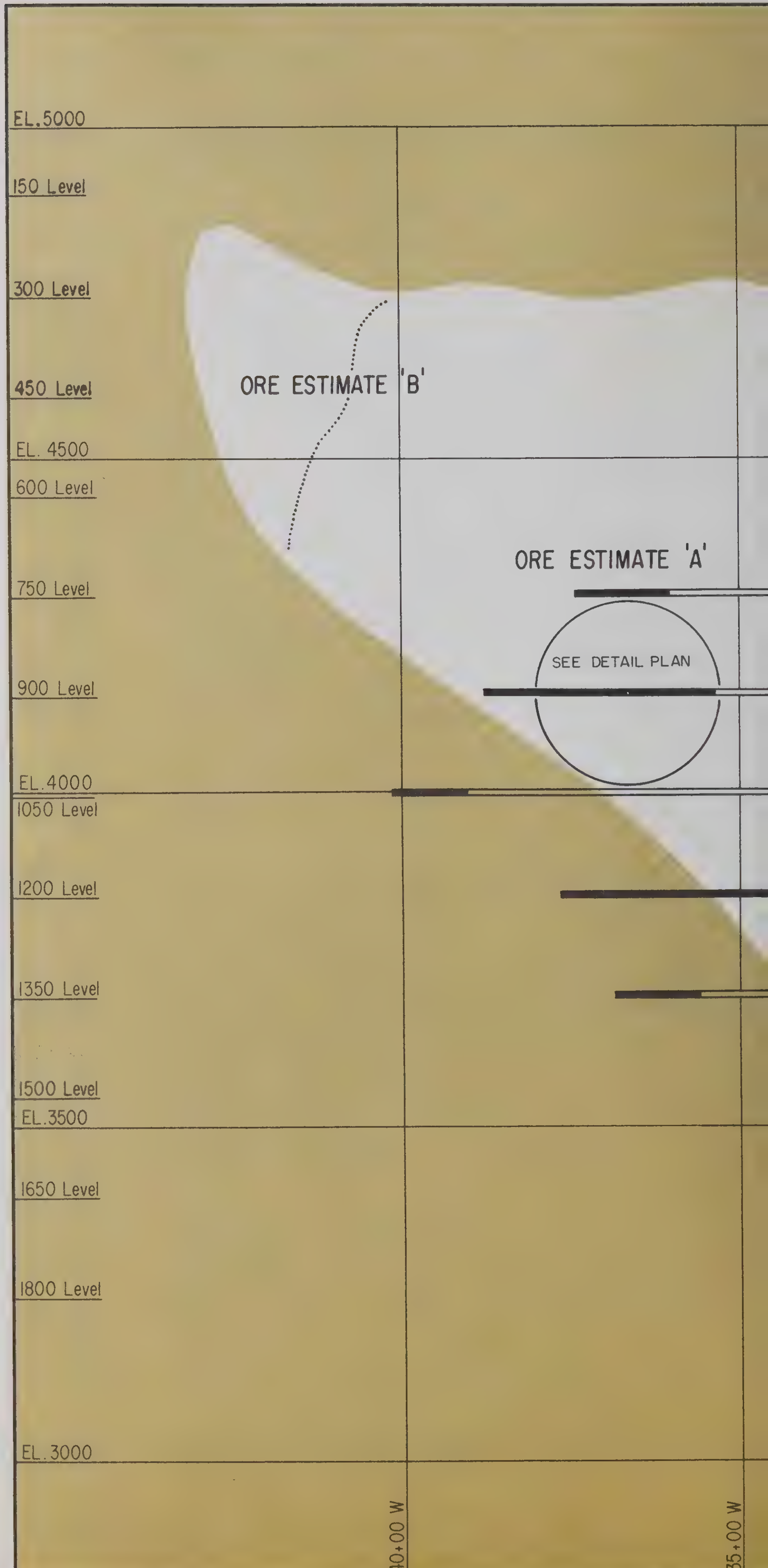
The idealized longitudinal projection alongside shows the underground development progress to the period ended July 31, 1969.

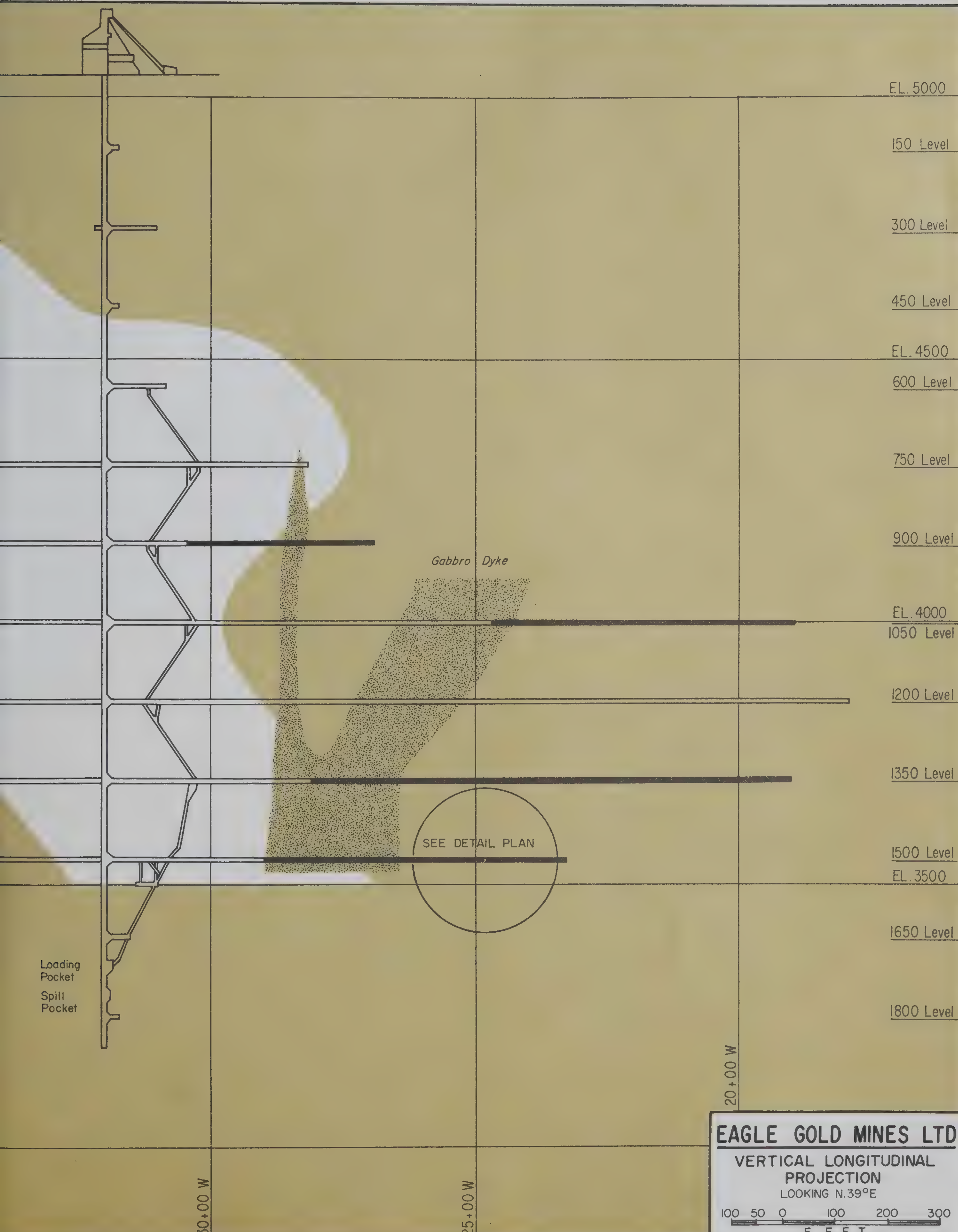
The drift advance on the six levels during the four month period from March 31st to July 31st, is shown in solid black. Approximately 4,800 feet of drifting was completed during this period.

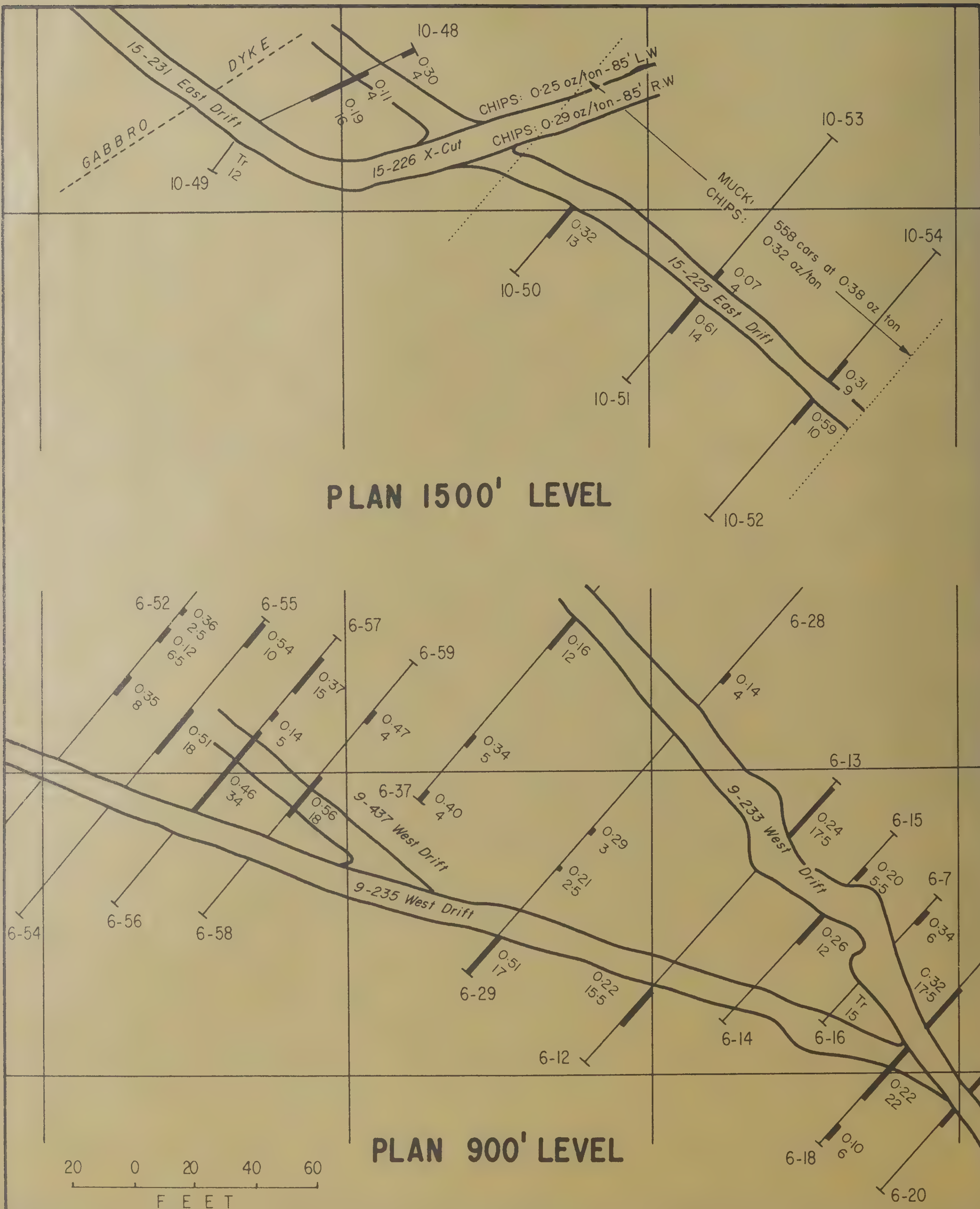
The "Main Orebody" is represented as the area west of the gabbro dyke, and the "East Orebody" is that section east of the gabbro dyke. The central white area depicts the ore limits as indicated by the original surface diamond drilling. Subsequent underground development has, in addition to locating the new zone to the east, shown mineable widths of ore grade material on the four levels which to date have been advanced to the west of the ore limits defined by the original surface drilling.

NOTE: See page eight for the detail plans of the sections circled on the west heading of the 900 foot level and the east heading of the 1500 foot level.

EAGLE
GOLD MINES
LIMITED




EL. 5000
150 Level
300 Level
450 Level
EL. 4500
600 Level
750 Level
900 Level
Gabbro Dyke
EL. 4000
1050 Level
1200 Level
1350 Level
SEE DETAIL PLAN
1500 Level
EL. 3500
1650 Level
Loading Pocket
Spill Pocket
1800 Level
20+00 W
30+00 W
25+00 W
EAGLE GOLD MINES LTD
VERTICAL LONGITUDINAL PROJECTION
LOOKING N.39°E
100 50 0 100 200 300
FEET



PLAN 1500' LEVEL

PLAN 900' LEVEL

Cage and skip combination at top of shaft.

EAGLE GOLD MINES LIMITED

STATEMENT OF DEFERRED DEVELOPMENT EXPENSES
(unaudited)

For the Period from January 1, 1969 to June 30, 1969
(With comparative figures for the period from January 1, 1968 to June 30, 1968)

	1969	1968
Joutel Township — Group II		
Underground exploration	$ 536,583	$ 22,407
Wages and salaries	88,071	50,759
Heating and hydro	36,710	29,689
Mine supplies and expenses	30,233	31,700
Engineers' fees and expenses	13,890	6,098
Metallurgical expenses	11,904	603
Maintenance	10,723	14,730
Equipment rental	3,585	815
Licenses, taxes, insurance	2,935	6,418
Consultant's fees and expenses	2,735	6,062
Telephone	2,223	1,827
Travelling expenses	1,485	913
Shaft sinking	—	308,086
Surface exploration	—	741
	$ 741,077	$ 480,848
Balance Deferred as at January 1	2,753,657	1,606,454
Balance Deferred as at June 30	$3,494,734	$2,087,302

Note: Certain prior period's figures have been reclassified to conform with the presentation adopted for 1969.

EAGLE GOLD MINES LIMITED

STATEMENT OF DEFERRED GENERAL AND ADMINISTRATIVE EXPENSES

(unaudited)

For the Period from January 1, 1969 to June 30, 1969

(With comparative figures for the period from January 1, 1968 to June 30, 1968)

	1969	1968
Shareholders' information	$ 26,867	$ 24,063
Executive officers' salaries	6,623	4,625
Transfer agent's fees and expenses	4,090	13,339
Miscellaneous office exenses	3,364	3,061
Head office services	3,000	3,000
Advertising	2,709	1,330
Legal and audit	1,414	18,489
Share certificate expense	573	4,124
Directors' fees	450	350
Listing and filing fees	100	274
Government fees and taxes	81	181
	$ 49,271	$ 72,836
Less: Interest income	6,033	41,081
	$ 43,238	$ 31,755
Balance Deferred as at January 1	219,735	182,353
Balance Deferred as at June 30	$ 262,973	$ 214,108

Note: Certain prior period's figures have been reclassified to conform with the presentation adopted for 1969.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(unaudited)

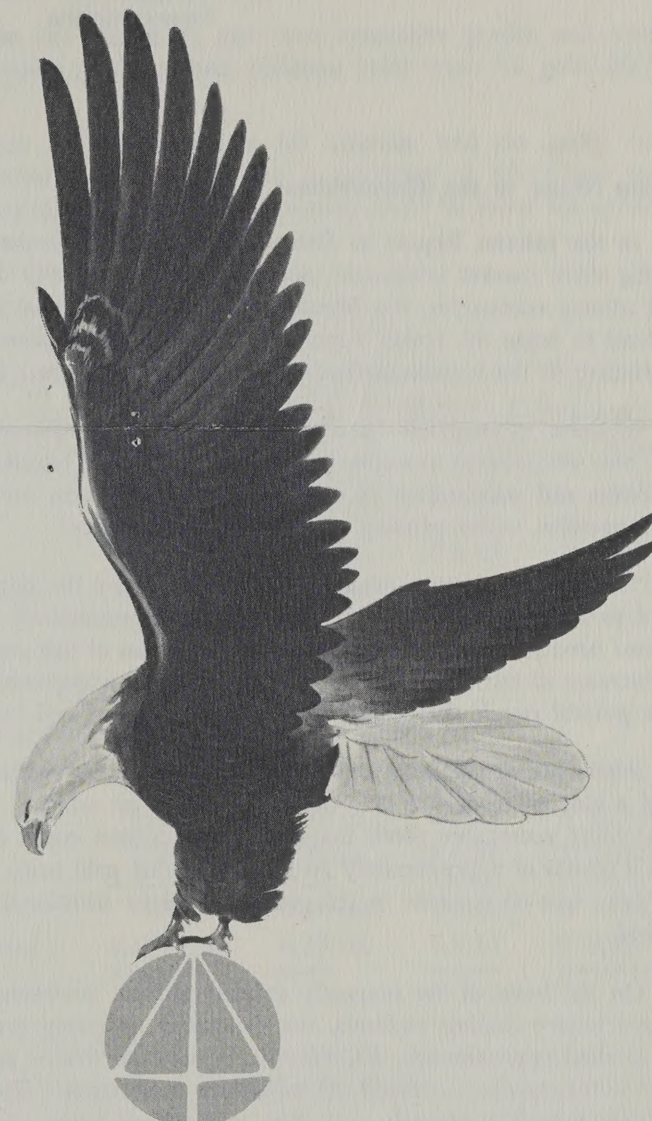
For the Period from January 1, 1969 to June 30, 1969

(With comparative figures for the period from January 1, 1968 to June 30, 1968)

	1969		1968	
Working Capital as at January 1		$ 417,477		$ 496,632
SOURCE OF FUNDS				
Refund of deposit — Quebec Hydro	$ 8,328		—	
Sale of capital stock	—		$ 490,748	
Premium on sale of capital stock	—	$ 8,328	785,197	$1,275,945
APPLICATION OF FUNDS				
Additions to fixed assets	$ 420,095		$ 105,034	
Development expenses	741,077		480,848	
General and administrative expenses	43,238	1,204,410	31,755	617,637
Increase (Decrease) in Working Capital		$(1,196,082)		$ 658,308
Working Capital (Deficiency) as at June 30		$ 778,605		$1,154,940

Dumping waste rock from loading pocket at 1710 foot elevation.

Printed in Canada.



EAGLE GOLD MINES LIMITED

Paul Penna, Mentor Exploration and Development Co. Ltd

SPECIAL REPORT TO SHAREHOLDERS

January 26, 1970

MERGED, 1972, WITH AGNICO MINES LTD.
TO BECOME AGNICO - EAGLE MINES LTD

EAGLE GOLD MINES LIMITED

Suite 1101, 365 Bay Street
Toronto, Ontario

Important Notice to the Shareholders:

In the Interim Report to Shareholders dated December 9, 1969, it was stated that owing to prevailing stock market conditions, specifically the unusually depressed market price levels for shares of gold mining companies, the Management of your Company was obliged to consider financing the final phase to bring the Joutel Area gold mine into production through bank loans or funded debt as an alternative to the former method of equity financing, viz., the sale of treasury shares.

In order to establish the criteria for this type of financing, consulting engineer D. R. Wilson, P.Eng., was retained to reassess the additional capital requirements to complete this final phase of construction and preparation of the mine for production and also appraise the profitability of the mining operation under existing lower world gold prices.

The feasibility study subsequently submitted by the consulting engineer stated that the amount required to complete this final phase would be approximately $5,545,000 rather than the $3,200,000 which had been previously estimated. The escalation of this capital requirement is partially attributable to the increase in the mill capacity, more extensive underground and preproduction development work, and the general rise in the cost of materials, equipment and labour.

While this study indicated that an economically viable mining operation was possible on the basis of a gold price of $35.00 (U.S.) per ounce by utilizing selective mining methods to obtain mill heads yielding acceptable profit margins, the operation could not be sustained at these profit margins beyond a period of approximately 26 months at this gold price. Thereafter, profitability would decline unless there was an increase in the price of gold or additional tonnages of higher grade ore could be developed.

On the basis of the presently defined proven, probable and drill-indicated ore categories, and utilizing selective mining methods, the estimated operating profit for this projected initial 26 month period totalled approximately $3,860,000, an amount that is somewhat less than the additional capital of $5,545,000 required to bring the mine into production. This, of course, is not an acceptable basis for securing a bank loan or funded debt, particularly under current tight money markets.

The usual prerequisite for most financing proposals involving either bank loans or funded debt, is a demonstrable method of repayment with minimum risk. Since this could not be assured in view of currently prevailing low gold prices, and it would be impossible to project or postulate an imminent increase in the price of gold to satisfy this basic banking requirement, the economic factors naturally obviated such financing arrangements.

A further important consideration from the standpoint of the Company and its shareholders, was the advisability of mining the deposit with resultant lower profit margins owing to currently depressed gold prices, or, alternatively, defer the commencement of production until such time as the economics improve — notably, an increase in the price of gold to at least the level of around $40.00 (U.S.) per ounce, the approximate average price of gold on the 'two-tier' market during most of 1968 and 1969.

Notwithstanding the problems of financing, which were accentuated by the escalation of capital costs, your Company's Board of Directors concluded that it was both necessary and prudent to defer

the start-up of operations until gold prices improved in order to maximize the potential value of the ore deposit.

The following table of the various ore categories and their respective grades and tonnages, together with the estimated realizable operating profit at three different price levels for gold, illustrates the factors considered by your Company:

(Note: the ore calculations include a 15% allowance for dilution, and the profit margins reflect anticipated present-day operating costs, including a provision of $0.95 per ton for development, averaged for all ore categories. This cost allowance might be lower for certain ore categories under selective mining methods.)

TABLE I

Estimated Operating Profit at $35.00 (U.S.) Per Ounce

Ore Category	Tons	Grade	Profit/Ton	Operating Profit
Medium Grade, Proven & Probable	492,974	0.35 oz.	$ 3.91	$ 1,927,000
Medium Grade, Drill-Indicated	376,107	0.38 oz.	$ 5.15	$ 1,937,000
Sub Totals	869,081	0.36 oz.	$ 4.45	$ 3,864,000
Total of Proven, Probable & Drill-Indicated	3,151,658	0.29 oz.	$ 1.80	$ 5,673,000

TABLE II

Estimated Operating Profit at $40.00 (U.S.) Per Ounce

Ore Category	Tons	Grade	Profit/Ton	Operating Profit
Medium Grade, Proven & Probable	492,974	0.35 oz.	$ 5.55	$ 2,736,000
Medium Grade, Drill-Indicated	376,107	0.38 oz.	$ 6.98	$ 2,625,000
Sub Totals	869,081	0.36 oz.	$ 6.18	$ 5,361,000
Total of Proven, Probable & Drill-Indicated	3,151,658	0.29 oz.	$ 3.14	$ 9,896,000

TABLE III

Estimated Operating Profit at $45.00 (U.S.) Per Ounce

Ore Category	Tons	Grade	Profit/Ton	Operating Profit
Medium Grade, Proven & Probable	492,974	0.35 oz.	$ 7.20	$ 3,549,000
Medium Grade, Drill-Indicated	376,107	0.38 oz.	$ 8.81	$ 3,314,000
Sub Totals	869,081	0.36 oz.	$ 7.90	$ 6,863,000
Total of Proven, Probable & Drill-Indicated	3,151,658	0.29 oz.	$ 4.49	$14,151,000

The medium grade ore categories (proven, probable and drill-indicated) were those considered in the proposed initial stages of the operation.

As a considered alternative to the completion of the construction and preproduction development work, the Company is now in the process of placing the mine on a care and maintenance basis and plans to carry out only such work as is necessary to secure the plant and existing equipment against deterioration. This will enable the resumption and completion of this final phase at such time as economic conditions permit.

Additional financing in an amount which is presently being determined, will be required to place the mine on a standby basis.

In conjunction with the foregoing, it is also planned to keep the underground workings dewatered. A crew will also be required to carry out the geological mapping of some 6,000 feet of underground workings and this latter program is expected to take about two months to complete.

Your Company feels that present short term considerations favour the emphasis of expenditure on efforts to delineate the ultimate extent of the deposit beyond the presently known dimensions. As has been mentioned previously, there is no known geological reason why this strong structure will not persist to depth beyond the presently tested horizon at 1,800 feet or 300 feet below the bottom level.

Initially, this is planned to include a preliminary diamond drilling program to test the approximate 4,000 feet of total strike length west from the present limits of the underground workings to the property boundary. The drilling program planned includes a series of holes to test horizons between 1,000 and 1,200 feet below surface along this strike length. Drill hole locations are now being laid out by the Company's consulting geologist. Such a program may well reveal totally different economic factors.

The Board of Directors wishes to express its continuing confidence and optimism over the ultimate prospects of the mine and also the outlook for an eventual increase in world gold prices due to the factors outlined in the recent Interim Report. Shareholders will be further advised regarding the Company's plans and any financing arrangements.

On behalf of the Board of Directors,

"PAUL PENNA"
President and Managing Director

January 26, 1970

Printed in Canada